



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. # Ranking Democratic Member

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Medicare — The HI Trust Fund Surplus

Background

- ***Current Law Separates the Financing of Medicare Part A and Part B*** — The Administration's budget presents the financing of the Medicare program as a unified package. They claim that, because expenses exceed revenues in Part B (SMI) of Medicare, that there is no true Medicare surplus. This argument ignores the fact that since the inception of Medicare in 1965 the law has established separate financing for Part A (HI) and Part B (SMI).
- ***Current Financing — Part A*** is financed through payroll taxes and a portion of the income tax on social security paid by those whose incomes are higher than average.

Part B is financed by premiums equal to 25 percent of program costs (adjusted annually) and by general revenues equaling the remaining 75 percent of program costs.

The 2002 Bush Budget

- ***The Illusion of a Deficit in the Trust Fund*** — Simply declaring that Part A and Part B funds are merged and in deficit does not equal a deficit. It does not wipe out the financing in current law which clearly separates the two programs.

The budget does not propose merging the Part A and Part B Medicare programs. It simply presents the financing as merged so that they can ignore the entire ten-year surplus of \$526 billion in the Part A Trust Fund for the convenience of being able to spend it on programs other than current Medicare benefits.

- ***Diversion of Part A Trust Fund*** — Instead of reserving the Part A Trust Fund, the Bush budget diverts the entire Part A Medicare Trust Fund into their "\$842 billion contingency fund" which may be used for tax cuts and a variety of undefined purposes other than current Medicare benefits.

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